



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. July 21, 2005. The following members were present:

Jody B. Olson
Clifford T. Hayes
Pamela I Ahrens
J. Kirk Sullivan

Mr. Jeff Cilek has been appointed to a five-year term as Trustee beginning July 1, 2005. He was absent and excused. Former Trustee Dennis Johnson did not stand for re-appointment. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Richelle Sugiyama
Rod MacKinnon
Bill Palumbo
Dennis Fitzpatrick
Brian McGrath
Drew Black
Vickie Burnet
Michael Barcelo
Doug Bates
Dave Boren
James Coleman

Endowment Board Acting MIO
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
IPEA
Idaho Trust National Bank
Clearwater
Clearwater
Retired Teachers

Charlie Brown	REAI
Geoff Bridges	Milliman
Rob Nelson	Covansys
Michael Signun	ACS
Ron Hogen	ACS
Bill Kincaid	ACS
Lucinda Smith	Mellon
Dr. Nguyen Huy Ban	Director-General Vietnam Social Security
Le Thi Hong Phuong	Director Int. Cooperation Dept VSS
Nguyen Hong Thy	Director Ho Chi Minh Social Security VSS
Tran Thi Thu Tra	Expert, Int. Cooperation Dept VSS
Nguyen Phuoc Tuong	Director, Planning and Finance VSS
Marsha Vandeburg	Pacific Pension Institute
Mark Silver	Pacific Pension Institute

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the May 26, 2005 meeting as submitted. In a separate motion made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the May 26, 2005 Investment Sub-Committee Meeting.

PORTFOLIO

Chief Investment Officer Robert Maynard introduced a delegation of visitors from the Vietnam Social Security Systems. They are visiting several public retirement systems in the USA on a tour arranged by the Pacific Pension Institute. Ms. Vandeburg thanked staff and the Board for the time spent the previous day meeting with the delegates and explaining PERSI's operations. She said they are particularly interested in new ideas, governance and checks and balances in different systems. The delegates said they hope to use information gained from this visit as they improve their Social Security System. Their system was begun only ten years ago and serves six million members. They have \$3 billion in assets. Chairman Olson and the Board welcomed the visitors to the meeting.

Monthly Portfolio Update: Mr. Maynard discussed his fiscal year-end report dated June 30, 2005 which showed a fiscal year-to-date return of 10.7%. Highlights from the CIO Comment portion of the report included:

A good earnings season, reasonable inflation numbers, and lower oil prices have recently combined to give the stock markets one of their best short-term runs for months. As a result, the PERSI portfolio is up 1.0% for the month-to-date, and has rebounded to 10.7% for the fiscal year-to-date.

REITS, emerging markets, TIPS and private equity have been the greatest contributors to PERSI's relative performance. For a change, global equity managers have experienced a rough recent three months. For the fiscal year-to-date, the two best performing areas (and managers) are the emerging markets managers Bernstein and Genesis (47% and 41% for the fiscal year-to-date) and the Adelante REIT portfolio (34%).

Bernstein Emerging continues to lead all managers in both absolute performance with 46.6% for the fiscal year-to-date, as well as relative performance (compared to benchmarks) with a 12.5% outperformance of its benchmarks. (Genesis emerging market equity is second in relative outperformance, beating its benchmark by 7.3% for the fiscal year-to-date). Bernstein Global and Mondrian are also showing significant positive performance both with absolute and relative returns. Tukman has the poorest absolute and relative performance for the fiscal year-to-date, and SGAM and Donald Smith also had very poor relative years.

The major new activity for the portfolio this month is the addition of a national apartment real estate venture with Olympic partners.

Mr. Maynard discussed individual manager performance, saying SGAM has been terminated. Saker Nusseibeh is leaving the company and is moving to Boston; with his leaving, the backup is poor. We have moved those funds to other global, indexed and emerging market managers. In response to a question from the Chair, Mr. Maynard said that in the last seven years, the fund has gained more than a billion dollars as a direct result of our active management and strategic bets.

As of June 30 2005, which is the end of the PERSI fiscal year, the report shows the ending value of the PERSI fund at \$8,561,926,307.

Chairman Olson said at the Board's mini-retreat meeting earlier in the week, the trustees had reviewed the funds history of being conservative in management of the assets and conservative in accruing liabilities. While PERSI has sustained losses twice in the last five years, they believe the actuarial goal of earning returns of 7.75% remains a good challenge. Mr. Olson has served for 18 years on the Board and said while earning higher returns than other funds is added value, losing less than other funds when the markets are down is what really makes the big difference. He congratulated the entire investment team on their work.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Dave Boren of Clearwater Advisors said the notice that China will no longer peg its currency to the US dollar but let it float in a tight band against a basket of foreign currencies is seen as positive in U.S. fixed income markets. Dennis Fitzpatrick concurred, saying that while the revaluation formulation exchange rate is not yet known, it is important as the start of something for the long term. Drew Black said he is receiving more commercial loan applications than usual with investors coming from other states. Mr. Fitzpatrick thanked Trustee Hayes for arranging meetings in northern Idaho. While much of the growth is residential there, he looks forward to increasing the commercial loans in that area. Trustee Hayes would like to see the target allocation for commercial loans in northern Idaho increased in the coming years. Rod MacKinnon and Bill Palumbo noted the significance of the Chinese revaluation plan and how higher risk profile companies may find their performance suffering in less favorable markets.

OTHER BUSINESS: July 2005 marks the 40th Anniversary of PERSI. Chairman Olson reviewed major milestones of the agency. Cake was served during the meeting break.

LEGAL:

Retirement Rules – Sick Leave and Contribution: Deputy Attorney General Goodsell had provided a July 14, 2005 memorandum to the Board regarding proposed retirement rules. By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved the adoption of the proposed rules as set forth in Docket No. 59-0106-0501.

FISCAL:

Sick Leave Fund Administrative Expense: Financial Officer James Monroe reviewed his July 14, 2005 memorandum to the Board in which he provided information on administrative costs associated with the sick leave fund. We have the statutory authority to charge an administrative fee to the fund and did so in the distant past. The actuary reserves 0.50% of sick leave assets for administrative expenses. With the advent of the state's new accounting system in the early 1990's, recording such a fee became impractical. Upon review it was determined to be a negligible amount and not have a material impact on statements, valuations or contribution rates.

Current accounting programs will accommodate recognition of these expenses and Trustee Hayes asked staff to revisit the issue. After discussion, by motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously adopted the staff recommendation to assess administrative fees periodically throughout the year with the total fee amount per year estimated to be \$54,000. The amount will be recalculated and adjusted, if necessary, every two years.

LEGAL (Continued)

Contested Case – Smyth: Deputy Attorney General Brian Kane was present to represent and advise the Board in this matter and briefly reviewed the facts of the contested case. Copies of the recommended decision and all pleadings filed subsequent to that decision had previously been provided to the Board. Trustee Ahrens asked what steps PERSI has taken to ensure that other inactive members understand that in order for the double death benefit law to apply to them, members must have been contributing when the law took effect in 1999. She expressed concern that information in annual statements should be as accurate as possible. Trustee Ahrens asked whether we know how many inactive members received the erroneous statements. Mr. Winkle said our system may be able to provide a count of those members. Annual statements have been corrected to remove any calculation of such a double benefit unless the member was actively contributing in 1999. Responding to a question from Trustee Ahrens, Membership Manager Judy Aitken said the first year this correction was made, her staff received fewer than ten calls questioning the issue. After further discussion, by motion duly made by Trustee Sullivan and seconded by Trustee Hayes, the Board unanimously denied the relief requested by the petitioner in his exceptions and issued a Final Decision and Order adopting the recommended decision of the hearing officer.

CHOICE PLAN

Mellon/ACS – Lucinda Smith of Mellon told the Board that Mellon has sold the benefits administration piece of their business to ACS (Affiliated Computer Services, Inc.). Bill Kincaid introduced Michael Sigmund, Senior Vice President and Ron Hogan the Division Vice President. He said the entire benefits administration business, including staff, was lifted out and sold which provides continuity to clients. They provided an overview of the company and answered questions from the Trustees. Trustee Hayes noted that he is aware of a small ACS office in Northern Idaho for a pilot program there. He asked about the Choice Plan website. It will be maintained as before with enhancements and changes approved by PERSI staff.

OTHER BUSINESS:

Trustee Sullivan was excused from the meeting at 10:25 a.m. because of a previous engagement.

EXECUTIVE DIRECTOR

Imaging Contractor: Mr. Winkle introduced Rob Nelson of Covansys. The company is well known in the public sector and is the successful bidder on our imaging project. Maximus continues as the overall project design contractor. Covansys has worked on projects more than five years in the State of Idaho, completing the voter registration system for the Secretary of

State on time and on budget. They will use FileNet for the overall software and Integra will handle the backfile conversion. Mr. Winkle said we are happy that PERSI will have the same group of employees that handled the Arizona Retirement System project. They were highly recommended and know how retirement systems work. Covansys has also completed the imaging and workflow project at the Idaho State Insurance Fund.

New Employer: By motion duly made by Trustee Ahrens and seconded by Trustee Hayes, the Board unanimously approved the Franklin County Fire District as a new employer with an effective date of August 1, 2005. There are no entry costs for this employer to join PERSI. They have five employees in addition to four elected and appointed members.

FISCAL:

Out of State Travel, Administrative, Portfolio Reports: Financial Officer James Monroe told those present that Senior Accountant Rhonda Yadon and her husband are the happy parents of a son born July 16. Senior Accountant Cecile McMonigle will be completing the quarterly financial report for the August meeting while Ms. Yadon is on leave. Mr. Monroe reviewed the out-of-state travel, administrative budget and portfolio expense reports which had previously been furnished to the Board. He said the preliminary work for the annual audit is progressing well. Mr. Lou Henry has retired from Deloitte and Touche and his replacement has not been named. Chairman Olson asked Mr. Monroe to arrange a meeting for him with the replacement person. He also asked whether this is the second or the third year of the contract agreement. Mr. Monroe will research that issue.

Mr. Monroe then discussed the budget enhancements proposed for FY 2007 which had been outlined in a July 15, 2005 memorandum to the Board. They will be presented for approval as part of the FY 2007 budget request at the August meeting. The budget submission deadline is September 1. The PERSI budget is funded 100% from trust funds. The budget request establishes a level of spending authority only. Actual cash is drawn from the trust as needed for operations. Any unused budgetary spending authority balance is normally deleted at the end of each fiscal year. Chairman Olson asked what the role of the Legislative Budget Office and the Division of Financial Management is in presenting budgets. Amy Castro from the Legislative Budget Office said whatever budget the Board submits is submitted to JFAC along with the Governor's recommended PERSI budget that DFM and the Governor prepare.

Status Update: Mr. Winkle had previously provided a memorandum to the Board summarizing the projects in which PERSI is involved. Training for PERSI staff for the contact center is in the final design stages. PERSI staff has completed the second annual round of employer meetings throughout the state. Again this year, they appear to be a great success. The CEM (Cost Effective Measurement) annual conference was held in Boise

this year. Retirement system administrators world-wide attended the conference which included a tour of the PERSI facilities and a demonstration of our operations and technology. As a spin-off from that conference, a group from the North Carolina retirement system visited PERSI for three days to review our knowledge based system and our administrative practices. Mr. Winkle also listed some early-stage legislation topics that are being discussed by legislators and constituent groups. Sick Leave and Retirement Benefit Spiking, State Benefit Enhancements (Long-Term-Care) and a number of presentations were also noted.

New Employers – By legislation passed this last session, The Board of Architects re-joined PERSI effective July 1, 2005. This reverses a 1996 statute which removed the Board from PERSI. Six new charter schools are also mandated into PERSI by law. Compass Charter School, Inspire Virtual Charter School, Upper Carmen Charter School, and Falcon Ridge Charter School joined effective July 1, 2005. Idaho Arts Charter School and Rolling Hills Charter School have an August 1, 2005 effective date.

Legislative Ideas: Each year all state agencies, including PERSI, are required to submit "Legislative Ideas" to DFM. Those ideas approved by the Governor may then be proposed as bills for the upcoming legislature. Mr. Goodsell had provided a memorandum dated July 13, 2005 with those ideas listed. By motion duly made by Trustee Hayes and seconded by Trustee Ahrens, the Board unanimously approved the legislative ideas as submitted and directed Mr. Goodsell to submit them to DFM by the August 5, 2005 deadline.

Other Business: Trustee Ahrens asked when a detailed report on the disability program would be presented. She is interested in the trends and statistics of this program. Mr. Winkle said a report is planned for the August 23, 2005 meeting.

By motion duly made by Trustee Ahrens, seconded by Trustee Hayes and unanimously approved by members present, the Board approved the minutes of the July 19, 2005 Trustee Retreat.

FUTURE MEETINGS:

Tuesday, August 23, 2005, 8:30 a.m., Boise - PERSI office

Friday, September 23, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Monday, December 5, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 11:00 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson

Chairman

Alan H. Winkle
Executive Director